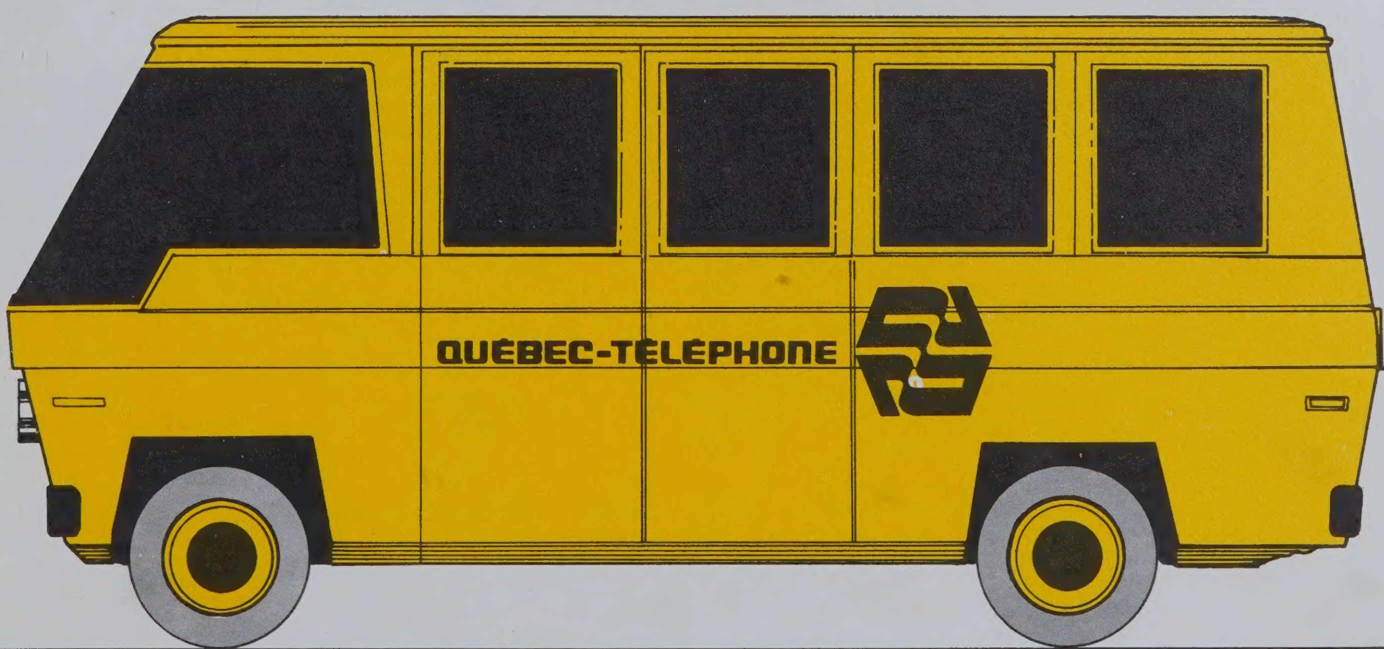
# Québec-Téléphone Annual Report 1971

Québec-Téléphone's new symbol expresses the unity, strength and purpose of our Company. The hexagon is an affirmation of force, stability and permanence; the very discreet arrow illustrates a constant effort to communicate; the wave pattern represents the electronics field and telecommunications in general; the various openings symbolize the will to communicate and readiness to change.

The Company's symbol and new colors will appear on buildings, vehicles and official documents.



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Si vous préférez un exemplaire du rapport en français, veuillez écrire à:
Québec-Téléphone,
Le secrétaire,
Siège social: 6, rue Saint-Jean,
Rimouski, Québec (418-723-2271)

**Listing of stock**
Common stock, 4¾% Preferred Stock, 1965 Series and 6.20% Subordinate Preferred Stock, Series A, 1969, are listed on the Montreal and Toronto Stock Exchanges.

The 5% Preferred Stock, 1955 and 1956 Series, are listed on the Canadian Stock Exchange.

**Stock transfer offices**
General Trust of Canada, 10 St. James Street, Montreal 126, is the Registrar and Transfer Agent for all classes of shares of the Company. The Royal Trust Company is the Co-Transfer Agent and Registrar for the 4¾% Preferred Shares, 1965 Series, at its offices in Toronto and Winnipeg, and is the Co-Transfer Agent and Registrar for the 6.20% Subordinate Preferred Shares, Series A, 1969, and for the Company's common shares at its offices in Toronto, Winnipeg, Regina and Saint John, N.B.

**Trustee for bonds**
General Trust of Canada, 10 St. James Street, Montreal 126.

**Bankers**
Bank Canadian National
Bank of Montreal

**Subsidiary**
The Bonaventure and Gaspé Telephone Company, Limited, New Carlisle, Bonaventure County, Quebec.

**To the shareholders:**
Your Directors appreciate the interest shown by shareholders who attend the Annual General Meetings and who participate in the discussion of the Company's affairs. This year the meeting will be held on April 12, in Rimouski, Quebec. All shareholders who find it possible to attend are urged to do so.

# Report in Brief

*(Thousands of dollars)*

| | 1971 | 1970 | 1969 | % variation 71/70 | % variation 70/69 |
|---|---|---|---|---|---|
| **Financial** | | | | | |
| Operating revenues | **$ 30,954** | $ 28,363 | $ 25,892 | 9.1 | 9.5 |
| Operating expenses (excluding income taxes) | **19,277** | 17,029 | 15,470 | 13.2 | 10.1 |
| Income taxes | **3,723** | 3,718 | 3,492 | 0.1 | 6.5 |
| Net income | **3,649**(1) | 3,199 | 2,983 | 14.1 | 7.2 |
| Net income applicable to common shares | **2,902**(1) | 2,441 | 2,226 | 18.9 | 9.7 |
| Salaries and benefits | **11,722** | 10,239 | 9,983 | 14.5 | 2.6 |
| Construction and other plant additions | **14,731** | 12,961 | 13,498 | 13.7 | (4.0) |
| Telephone plant, at cost | **147,756** | 135,708 | 125,516 | 8.9 | 8.1 |
| **Shareholder items** | | | | | |
| Earnings per common share | **$ 1.49**(1) | $ 1.40 | $ 1.28 | 6.4 | 9.4 |
| Declared dividends per common share | **0.81¼** | 0.72½ | 0.70 | 12.1 | 3.6 |
| **Other statistics** | | | | | |
| Telephone gain for the year | **10,526** | 8,465 | 8,165 | 24.3 | 3.7 |
| Number of telephones (2) | **163,226** | 152,700 | 144,235 | 6.9 | 5.9 |
| Toll messages | **13,654,451** | 12,421,598 | 11,904,488 | 9.9 | 4.3 |
| Average number of common shares | **1,947,700** | 1,741,067 | 1,741,067 | 11.9 | — |
| Number of preferred and common shareholders | **2,847** | 2,981 | 3,245 | (4.5) | (8.1) |
| Number of employees (2) | **1,648** | 1,604 | 1,575 | 2.7 | 1.8 |

(1) Before extraordinary item.

(2) Year-end.

## Board of Directors

Hervé Belzile
President
Alliance Mutual Life Insurance Company

Basile A. Bénéteau**
President and Chairman of the Board
Québec-Téléphone

Honorable Jules-A. Brillant, C.B.E.*
Honorary President
Québec-Téléphone

Roger Charbonneau
Dean
École des Hautes Études Commerciales

James J. Clerkin, Jr.
Executive Vice President—
Telephone Operations
General Telephone & Electronics Corporation

Aristide Cousineau
Chairman of the Board
René T. Leclerc Inc.

John J. Douglas
Executive Vice President—Finance
General Telephone & Electronics Corporation

Bernard Panet-Raymond
Executive Vice President
Quebec North Shore Paper Company

Claude Pratte, Q.C.
Advocate

Raymond Sirois*
Vice President—Operations
Québec-Téléphone

Julien Thuot*
Vice President—Finance, and Treasurer
Québec-Téléphone

** president of the executive committee
* member of the executive committee

## Officers

Honorable Jules-A. Brillant, C.B.E.
Honorary President

Basile A. Bénéteau
President and Chief Executive Officer

Raymond Sirois
Vice President—Operations

Julien Thuot
Vice President—Finance, and Treasurer

Henri Dionne
Vice President—Personnel

Jean-Marc Tremblay
Vice President and General Counsel,
Secretary,
Vice President—Public Relations

Yvon Gendron
Assistant Treasurer

Ghislain Bouchard
Assistant Secretary

# An era of innovation

"WHEREAS, in the opinion of the Board and as a result of the analysis of the proof, the present situation requires, to a great extent, a solution which differs from those applied in the past . . ." (Order No. 8710, Public Service Board of Quebec, January 20, 1972).

The importance of the above passage greatly surpasses the importance of the ruling itself. It is a symbol of the future, an indication of things to come.

Until recently, the telephone industry has maintained a conservative and traditional image, that of an industry whose goal was to provide excellent service at an equitable price. The quality and universality of today's services are witnesses to the attainment of this objective.

Today's climate is one of innovation. We must find new solutions to old problems, apply modern techniques to the solution of new problems, so that they become opportunities to be explored for the benefit of the customer and the Company.

In addition, the progressive automation of our operations, which has already affected many routine activities, is now being directed towards more complex tasks, formerly performed exclusively by man. In light of the heightened sophistication of management and communication tools and the increasing know-how of those who use them, man's activities will converge towards spheres which really challenge his creative capacity.

Correspondingly, his work will become more human.

President

# Directors' Report
# 45th Annual Report

The mining and industrial developments undertaken in the Company's operating territory during 1971 resulted in a considerable increase in telecommunication services. The number of telephones in service reached 163,226, a record growth of 10,526. Toll messages numbered 13.6 million, an increase of 9.9% over the preceding year.

**Income and dividends**
After deduction of dividends on preferred shares, net income applicable to common shares resulting from current operations in 1971 rose to $2.9 million, compared with $2.4 million in 1970. Adding the non-recurring exchange gain of $251,156 realized at repayment of loans in U.S. funds, net income applicable to common shares amounted to $3.1 million.

Earnings per common share resulting from current 1971 operations, based upon the average number of shares outstanding during the year, rose to $1.49, compared with $1.40 for 1970, despite an increase in the number of common shares outstanding following the issue and sale of common stock in April 1971. The extraordinary gain realized in 1971 makes for an additional 13 cents, bringing earnings per common share to $1.62.

Regular quarterly dividends were paid to preferred and common shareholders. The regular quarterly dividend of 20 cents per common share paid in 1971 was increased to 21¼ cents per common share, effective with the dividend paid on January 1, 1972 to shareholders of record on December 3, 1971. The percentage of net income from current operations transferred to retained earnings was 45.1% in 1971.

**Operating revenues and expenses**
Operating revenues were 9.1% higher in 1971, reaching $31.0 million. Revenues from local service, which amounted to $12.0 million, showed an 8.9% increase for the year, while toll revenues amounted to $18.6 million, a growth of 8.7%. The increase in local service revenues was due to unprecedented growth in the number of telephones in service (10,526) and the implementation of a computer-based program of control and development for public telephones. The increase in toll service revenues was the result of:

1) a 9.9% growth in the number of toll messages (the increase strongly marked the final quarter of 1971) and

2) an average increase in revenue per toll message of 2½ cents.

Revenues from data transmission and data processing continued to grow substantially, while doubtful accounts decreased by 21%, despite an increase of 9.1% in the volume of business.

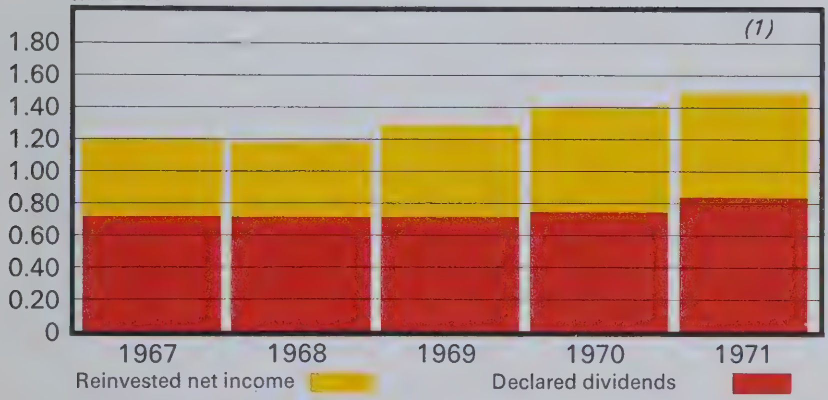
Controllable operating expenses (plant maintenance, traffic, commercial, marketing, and general administration) rose to $11.7 million, an increase of 11.3% in 1971, compared with a 7.7% increase in 1970. This rise in costs, which characterized the year 1971 and which will in all likelihood continue in 1972, will be largely offset by the rationalization of manpower and capital, as well as by various measures taken to curtail the abusive use of certain auxiliary services.

Telephone plant depreciation totalled $6.5 million in 1971, an increase of 17.4% over the preceding year. In 1968, the Company's Engineering Department undertook studies to determine the adequacy of the depreciation rates for each class of telephone plant in service; this study, now four-fifths completed, will be terminated in 1972. The revised depreciation rates have resulted in additional depreciation expenses of about $497,000 and $305,500 for the years ended December 31, 1971 and 1970 respectively. Extraordinary retirement of certain buildings and equipment resulted in additional depreciation charges of $246,000 in 1971 and $115,000 in 1970. It is expected that the classes which are to be studied in 1972 will only slightly affect depreciation expenses in future years.

During the year 1971, various government measures were taken to reduce corporate income tax. As a result of the abolition of the 3% surtax and a 7% reduction in the basic federal income tax rate, effective July 1, 1971, total provincial, municipal, income taxes and other taxes amounted to $4.8 million, compared with $4.7 million in 1970. In addition, the Company collected the sum of $1.7 million from its customers for the Government of Quebec in the form of sales and telecommu-

**Earnings per common share**

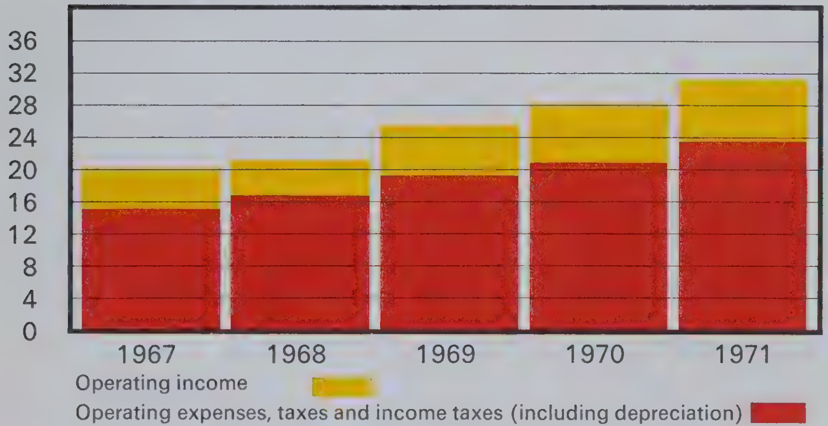
*In dollars*




(1) Before extraordinary item.

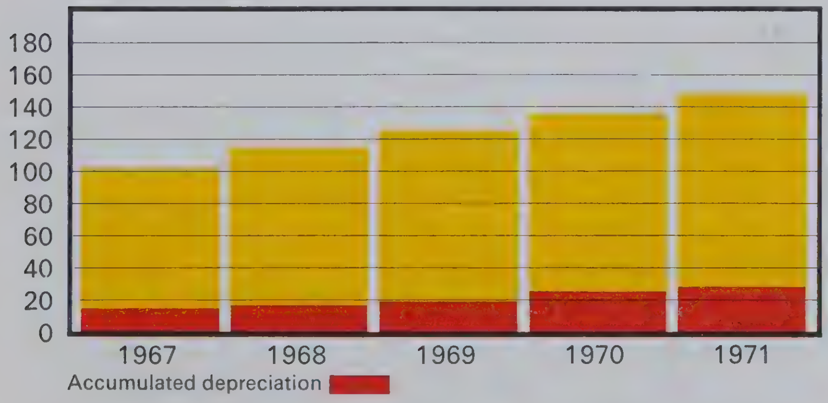
**Operating revenues**

*Millions of dollars*




**Telephone plant**

*Millions of dollars*




nications taxes. Excluding taxes paid on material and services purchased by the Company, various taxes constituted a heavy burden for telephone subscribers, totalling \$41.17 per telephone in service for the year 1971. Reflecting the gradual decrease in interest rates, interest and other fixed charges rose by 1% in 1971, amounting to \$4.7 million.

**Expansion and development**

Company expansion has been rapid in recent years as a result of a sustained demand for telecommunication services. Expressed in the number of telephones in service, the Company has more than doubled in a decade (163,226 telephones at the end of 1971, compared with 75,635 in 1961). Measured in terms of toll messages, the Company has also more than doubled in the last ten years (13.6 million toll messages in 1971, compared with 6.3 million in 1961) despite the introduction of Extended Area Service between numerous exchanges in 1968, 1969 and 1970, which eliminated a substantial volume of calls formerly classified as toll traffic.

The total number of telephones in service, which as of December 31, 1971, amounted to 163,226, may be classified as follows: 115,770 or 71% being residential and 47,456 or 29% being business telephones. As of December 31, 1971, 98% (73.1% in 1966) of our telephones were dial operated. Direct Distance Dialing, which was not available before 1967, was introduced to an additional 24 exchanges in 1971, and is now available to 94% of our subscribers. More than 51% of our toll messages are now dialed directly, compared with 25% two years ago. Automatic Number Identification, introduced in 1971, will be available in 1973 to about 40% of our subscribers. In accordance with the policy to provide, where possible, rural subscribers with urban service, eight other localities obtained private and two-party service in 1971. The average number of customers per rural line now stands at 4.2 (7.3 in 1965).

**Special services**

In addition to services related to basic telephone business, the Company offers its subscribers many special services. These include TELEX, TWX, and leased carrying facilities for voice, teletype, data, radio and television broadcasting, as well as closed-circuit television transmission and a mobile communication system for the Quebec Police Force in Eastern Quebec.

Among other developments, the year 1971 witnessed:
1) The prolongation of the on-line banking system which allows for distant communication between computers, bank branches and Caisses Populaires;
2) The linking of three branch offices of an important finance company to a computer located 1,200 miles away;
3) The installation of closed-circuit television between the University of Quebec in Rimouski and several local primary school classrooms;
4) The direct transmission, by means of data sets installed in various hospitals such as l'Hôtel-Dieu de Gaspé and the sanitoriums of Gaspé and Sainte-Germaine, of employee pay checks processed in the Company's Data Centre.

Also in 1971, a new type of push-button telephone was introduced which is particularly useful for business needing a telephone which is slightly more sophisticated than the regular telephone, and push-button calling became available in the Rimouski exchange.

In addition to processing an increasing number of programs related to planning, engineering, accounting and finance, the Company's Data Centre is pursuing a program, undertaken a few years ago, of marketing data services to the public for the processing of payrolls, inventory controls, and financial statistics.

The Company is recognized as an approved telecommunications common carrier and is authorized to subscribe for shares of Telesat Canada. As of December 31, 1971, the Company owned 50,000 common shares, at a cost of $500,000. An additional 10,000 shares will be purchased on March 1, 1972, at the same per-share cost.

**Operations**

The control of expenses and capital and an adequate level of service are the Company's primary goals. The introduction of Directory Assistance and the creation of a Regional Directory provide a means of restraining increases in traffic expenses and developing better customer service. The Regional Directory encompasses almost the entire population of Eastern Quebec. Some 65,000 listings allow customers in the Lower-Laurentian region to reach one another quickly and directly, saving time and money for the subscriber and the Company. In addition, it corresponds to the demands of municipal leaders and social groups.

In order to improve customer relations and operating efficiency, the Commercial and Plant Departments have been amalgamated into the Service Department. With the view to improving technical and administrative efficiency, numerous employees in Marketing, Plant, Engineering and Administration have been given specialized training either directly by the Company or from secondary schools, CEGEP's or universities.

The installation of a new and more powerful computer in January 1972 will permit the implementation of a more efficient operating system for the further development of sophisticated planning and capital management programs.

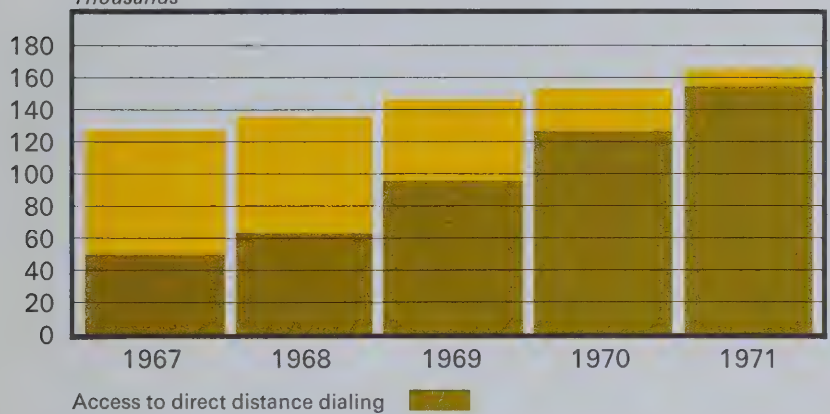
**Construction program**

During the five years ended December 31, 1971, additions to telephone plant for modernization and expansion amounted to $74 million; this includes the acquisition of 12 small contiguous telephone systems, but excludes the cost of equipment and material re-used. In 1971, construction expenditures amounted to $15.7 million and went principally to meet service needs and to bring about the following improvements:
1) Automation of the exchanges in Port-Daniel, St-Edouard-de-Lotbinière, Rivière-Saint-Jean, Rivière-au-Tonnerre;
2) Introduction of Direct Distance Dialing in an additional 24 exchanges;
3) Widening of toll-free service areas in 9 exchanges;
4) Introduction of Automatic Number Identification in Sainte-Marie de Beauce, Montmagny and Matane;
5) Introduction of push-button calling in Rimouski;
6) Further reduction in the number of parties per rural line.

Numerous additions to outside plant facilities and to central office equipment will be required between 1972 and 1975 in order to meet the sustained demand for basic and special services. Automation of company plant has been accelerated over the past six years: 40% of its switching equipment is amongst the most modern in the industry, incorporating a common command system which entails an appreciable reduction in maintenance. In pursuing its modernization program, which will mean

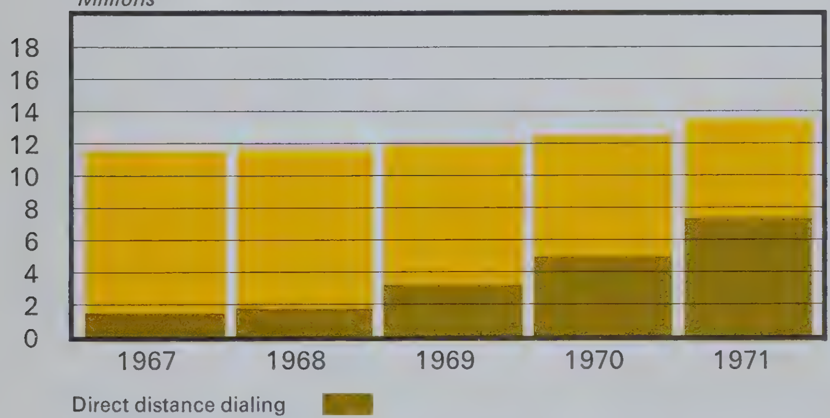
**Number of telephones**

*Thousands*




**Toll messages**

*Millions*




**A dollar of operating revenues and its uses**

| | | | |
|---|---|---|---|
| Toll service | 0.60 | 0.30 | Salaries and benefits* |
| | | 0.21 | Depreciation |
| | | 0.15 | Taxes and income taxes |
| Local service | 0.39 | 0.07 | Other expenses |
| | | 0.15 | Interest charges |
| | | 0.08 | Dividends |
| Miscellaneous | 0.01 | 0.04 | Reinvested income |
| Total | 1.00 | 1.00 | Total |

*Excluding salaries charged to construction.

52% automatic common command equipment by 1975, the Company will launch its first electronic central office exchange in Sept-Iles, at the beginning of 1973.

In light of the offering of new services and the anticipated developments on the North Shore, in the area adjacent to Quebec City, in the Rimouski region and parts of the Gaspe Peninsula, the construction budget for the period 1972-75 will reach approximately $75 million ($17.4 million in 1972). It is estimated that total investment in telephone plant, which amounted to $147.8 million at the end of 1971, will reach, after deduction of retired equipment, about $203 million at the end of 1975. The number of telephones then in service will amount to 210,000.

**Financing**

More favorable money market conditions at the beginning of 1971 allowed the Company to undertake two external financing operations: the issue of common shares in April 1971, and the sale of First Mortgage Bonds a month later. The issue of common shares, by means of rights, returned $3.4 million after expenses. This issue enabled the Company to reduce the ratio of borrowed capital from all sources (including bonds) to total capitalization from 64.8% by the end of 1970 to 62.5% by the end of 1971.

On May 15, 1971, the Company sold $7.5 million First Mortgage Bonds at an interest rate of 8¾%. The proceeds from the sale of common shares and bonds amounted to $10.7 million, enabling the Company to reduce loans from banks and affiliated companies by an equivalent amount.

In January 1971, a $4.9 million (U.S.) note negociated in 1970 was repaid by means of bank loans. In June 1971, a second and final note of $9.7 million (U.S.) also negociated in 1970 was refunded by means of a medium-term loan from Anglo-Canadian Telephone Company. In addition, in May 1971, the Company made an early repayment of the total First Mortgage Bonds, Series "D" still outstanding, payable in U.S. funds and normally due in 1972. These three transactions produced an extraordinary non-recurring gain of $251,156. In accordance with the clauses pertaining to Preferred Shares, Series 1950 and 1951, these outstanding shares were repaid on September 1, 1971.

The construction budget for the period 1972-1975, estimated at $75 million, will require about $26 million in new funds, the balance (about 65%) will be sought from internal sources.

**Personnel**

The success achieved during 1971 is attributable above all to the efforts of the Company's 1,648 employees, who, by their youth (the average age being 35.5 years), experience, drive, and talent, have contributed to the development of the Company and the territory it serves. In 1971, the Company paid the sum of $11.1 million in salaries and $600,000 in fringe benefits. Québec-Téléphone enhanced its team during the year by hiring 53 CEGEP graduates and 8 university graduates.

Two collective agreements dealing with operators, technicians and office workers, represented by the International Brotherhood of Electrical Workers, were renewed in 1971. The collective agreement covering plant workers will expire in October 1972.

**Administrative changes**

At the Annual General Meeting of Shareholders held April 7, 1971, Hervé Belzile, President of Alliance Mutual Life Insurance Co., was elected to the Board of Directors. At its meeting held the same day, the Board appointed Jean-Marc Tremblay, until then Secretary and General Counsel, to the position of Vice President and General Counsel, Secretary and Vice President—Public Relations; Ghislain Bouchard, until then Attorney, was named Assistant Secretary of the Company.

**Rate modifications**

Service standards, plant extensions and rates which apply to local and long-distance service are subject to the control and supervision of the Public Service Board of Quebec. The Railway Transport Committee of the Canadian Transport Commission has jurisdiction over the local and long-distance rates of the Company's subsidiary, The Bonaventure and Gaspé Telephone Company, Limited. However, this jurisdiction will terminate upon approval of the Deed of Sale, dated December 28, 1971, by which the Company purchased the telephone system and certain assets of its subsidiary.

The last general rate increase granted the Company became effective on November 1, 1966. The rates which apply to local service in the territory served by The Bonaventure and Gaspé Telephone Company, Limited, came into effect on June 1, 1954. On August 25, 1971, the Public Service Board of Quebec approved new rates for certain non-recurring charges to customers, effective September 1, 1971. In addition, on January 20, 1972, the Board authorized new rates for certain auxiliary services previously provided at no cost to customers:

1) A charge of $0.25 for any request to Directory Assistance for information which already appears in the directory, except for calls originating from public telephones, hotels and hospitals or from exempted, handicapped persons.

2) A charge of $0.25 on person-to-person calls not completed within 24 hours.

3) A charge of $0.25 on requests for immediate calculations of "time and charges" on long-distance calls.

4) A charge of $7.50 each time a subscriber requests that his non-published number be changed for another number not published in the directory or in the Directory Assistance listings. Authorization was also given to abolish numbers which were not listed in the directory, but available from Directory Assistance.

The rate modifications mentioned in the above paragraphs are the result of an analysis of both future communication needs and our responsibility towards the public, our customers and shareholders. Faced with rising operating costs (an 11.3% increase in controllable expenses in 1971 and a 7.7% increase in 1970 over the preceding year) and the capital needs to meet demands in telecommunications services, the Company must maintain a proper balance in order to compete in the money markets and to furnish the best service at the lowest possible price. These changes in rates, which in no way affect basic rates, will allow the Company to compress operating expenses or will at least direct the cost to the minority which uses these services, rather than the general clientele.

On February 2, 1972, Québec-Téléphone and Bell Canada signed an agreement and a traffic contract with respect to joint telecommunication services to cover a period ending in 1976. The agreement and contract, which are subject to approval by the regulatory authorities, include provisions for an out-of-court settlement and bilateral cessation of litigation pending between the two parties since the end of 1968.

**General**
In September 1971, the Company presented a brief to the Parliamentary Commission on Municipal Affairs concerning Bill 48 (The Real Estate Assessment Act). While in agreement with the objectives of the Bill for a new tax basis, it should be noted that the Bill could have disastrous effects mainly for companies operating in rural areas, since investment per telephone in urban areas is lower. Bill 48, which became law on January 1, 1972, will necessitate additional expenditures of about $3 million between 1972 and 1977.

Another brief, relating to modifications of the Law of the Public Service Board (Bill 35) was presented to the Parliamentary Commission on Communications. The Bill would grant the Board the power to legislate, within government guide lines, control and supervise public services, in the interest of the population of Quebec.

**Symbol**
Although formerly identified exclusively with telephone service, Québec-Téléphone is now active in the broader field of telecommunications. Consequently, it became necessary to find a means of expressing this transition to its customers, its employees, and the public.

On November 16, 1971, the Board of Directors of the Company approved a new corporate symbol and new colors. For the general public of Québec-Téléphone, the new symbol expresses the unity, strength and purpose of the Company. The hexagon is an affirmation of force, stability and permanence; the very discreet arrow illustrates a constant effort to communicate; the wave pattern represents the electronics field and telecommunications in general; the various openings symbolize the will to communicate and readiness to change.

**Outlook**
In light of the substantial investments in our system, the recent reduction in income taxes and various measures taken by the Company to contain operating expenses, our outlook for 1972 is optimistic.

In the years ahead, the effects of the current mining and industrial developments, backed by the territory's untapped natural resources, should lead to important demographic developments and greater communication needs, thus providing for a promising future.

For the Board of Directors,

B. A. Bénéteau
Chairman
February 3, 1972.

# Auditors' Report

To the Shareholders of Québec-Téléphone:

We have examined the consolidated balance sheet and consolidated statement of capitalization of Québec-Téléphone and subsidiary as of December 31, 1971, and the related consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have previously examined and reported on the consolidated financial statements for the preceding year.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Québec-Téléphone and subsidiary as of December 31, 1971, and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.
Chartered Accountants

SAMSON, BÉLAIR, CÔTÉ,
LACROIX ET ASSOCIÉS
Chartered Accountants

February 3, 1972.

# Consolidated Statement of Income

**For the years ended December 31, 1971 and 1970**

| | 1971 | 1970 |
|---|---|---|
| **Operating revenues:** | | |
| Local service | $ 11,972,557 | $ 10,998,007 |
| Toll service | 18,593,193 | 17,110,418 |
| Miscellaneous | 528,019 | 431,496 |
| Provision for doubtful accounts | (139,947) | (176,442) |
| | 30,953,822 | 28,363,479 |
| **Operating expenses and taxes:** | | |
| Maintenance | 4,351,913 | 3,838,057 |
| Depreciation (Note 2) | 6,540,753 | 5,573,218 |
| Traffic (Note 5) | 2,529,800 | 2,425,121 |
| Commercial (Note 5) | 1,392,309 | 1,240,401 |
| General office salaries and other | 3,405,381 | 2,987,472 |
| General taxes | 1,057,254 | 964,944 |
| Provision for Federal and Provincial income taxes — Current | 1,772,842 | 1,955,715 |
| — Deferred (Note 8) | 1,950,524 | 1,762,053 |
| | 23,000,776 | 20,746,981 |
| Operating income | 7,953,046 | 7,616,498 |
| **Miscellaneous income—net (note 6)** | 375,532 | 221,426 |
| Income before interest charges | 8,328,578 | 7,837,924 |
| **Interest charges:** | | |
| Interest on long-term debt | 2,869,665 | 2,302,983 |
| Interest on short-term notes | 1,713,200 | 2,265,366 |
| Amortization of discount and expense on long-term debt | 96,646 | 70,766 |
| | 4,679,511 | 4,639,115 |
| Net income before extraordinary item | 3,649,067 | 3,198,809 |
| **Extraordinary item (note 9)** | 251,156 | — |
| Net income | 3,900,223 | 3,198,809 |
| **Earnings per common share (note 10):** | | |
| Before extraordinary item | 1.49 | 1.40 |
| Extraordinary item | 0.13 | — |
| Including extraordinary item | $ 1.62 | $ 1.40 |

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Balance Sheet
December 31, 1971 and 1970

## ASSETS

| | 1971 | 1970 |
|---|---|---|
| **Telephone plant, at cost** | $147,755,963 | $135,707,675 |
| Accumulated depreciation (Note 2) | 26,531,328 | 22,538,529 |
| | 121,224,635 | 113,169,146 |
| **Current assets:** | | |
| Cash | 147,526 | 101,483 |
| Receivables (including unbilled revenues) | 3,480,416 | 3,297,860 |
| Material and supplies, at average cost | 2,511,520 | 2,013,056 |
| Prepayments and other | 133,862 | 131,209 |
| | 6,273,324 | 5,543,608 |
| **Other assets:** | | |
| Investment in shares of Telesat Canada, at cost (Note 4) | 500,000 | — |
| Unamortized discount and expense on long-term debt | 845,394 | 697,995 |
| Deferred charges | 165,923 | 124,102 |
| | 1,511,317 | 822,097 |
| | $129,009,276 | $119,534,851 |

Signed on behalf of the Board:

Julien Thuot, Director

Raymond Sirois, Director

## CAPITALIZATION AND LIABILITIES

| | 1971 | 1970 |
|---|---|---|
| **Capitalization (per accompanying statement):** | | |
| Common share equity | $ 25,666,918 | $ 20,678,503 |
| Subordinate Preferred share equity | 4,330,995 | 4,352,670 |
| Preferred share equity | 9,917,580 | 10,031,840 |
| Long-term debt | 44,719,203 | 38,371,182 |
| Total capitalization | 84,634,696 | 73,434,195 |
| **Short-term notes (per accompanying statement)** | 21,800,000 | 26,100,000 |
| Total capitalization and short-term notes | 106,434,696 | 99,534,195 |
| **Current liabilities (excluding short-term notes):** | | |
| Accounts payable— | | |
| Trade | 1,255,552 | 970,544 |
| Affiliates | 500,679 | 296,797 |
| Advance billings and customer deposits | 494,891 | 435,719 |
| Dividends | 618,081 | 536,263 |
| Accrued liabilities— | | |
| Income and other taxes | 79,772 | 535,556 |
| Interest and other | 1,481,949 | 1,226,610 |
| Current sinking fund payments | 176,000 | 363,440 |
| | 4,606,924 | 4,364,929 |
| **Deferred income taxes (note 8)** | 17,967,656 | 15,635,727 |
| | $129,009,276 | $119,534,851 |

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Statement of Retained Earnings

**For the years ended December 31, 1971 and 1970**

| | 1971 | 1970 |
|---|---|---|
| **Balance, at beginning of year** | $ 9,920,813 | $ 8,742,594 |
| **Add—** | | |
| Net income | 3,900,223 | 3,198,809 |
| | 13,821,036 | 11,941,403 |
| **Deduct—** | | |
| Dividends on preferred shares | | |
| Dividends on subordinate preferred shares | | |
| Dividends on common shares | 478,239 | 488,436 |
| Commission and expenses on sale of common shares | 268,897 | 269,873 |
| | 1,593,219 | 1,262,281 |
| **Balance, at end of year** | | |
| | 86,289 | — |
| | 2,426,644 | 2,020,590 |
| | $11,394,392 | $ 9,920,813 |

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Financial Position

**For the years ended December 31, 1971 and 1970**

| | 1971 | 1970 |
|---|---|---|
| **Source of funds:** | | |
| From operations— | | |
| Net income | $ 3,900,223 | $ 3,198,809 |
| Add expenses not requiring cash outlay, principally depreciation and provision for deferred income taxes | 9,062,167 | 7,376,223 |
| **Funds available from operations** | 12,962,390 | 10,575,032 |
| Issue and sale of First Mortgage Redeemable Sinking Fund Bonds (net) | 7,255,955 | 7,266,354 |
| Issue and sale of common shares (net) | 3,406,872 | — |
| Net changes in current assets and current liabilities | (487,721) | 1,676,364 |
| | 23,137,496 | 19,517,750 |
| **Use of funds:** | | |
| Dividends on common and preferred shares | 2,340,355 | 2,020,590 |
| Redemption of long-term debt | 1,151,979 | 355,305 |
| Redemption of preferred shares | 114,260 | 281,300 |
| Decrease in short-term notes | 4,300,000 | 3,900,000 |
| Investment in shares of Telesat Canada | 500,000 | — |
| | 8,406,594 | 6,557,195 |
| Construction and other plant additions | 14,730,902 | 12,960,555 |
| | $23,137,496 | $19,517,750 |

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Statement of Capitalization
December 31, 1971 and 1970

| | 1971 Shares outstanding | 1971 | '71 | 1970 | |
|---|---|---|---|---|---|
| **Capitalization:** | | | | | |
| Common share equity (Note 3) | | | | | |
| Common shares | | | | | |
| Authorized— 5,000,000 Common shares without nominal or par value | 2,032,700 | $14,272,526 | | $10,757,690 | |
| Retained earnings (per accompanying statement) | | 11,394,392 | | 9,920,813 | |
| | | 25,666,918 | 30% | 20,678,503 | 28% |
| Subordinate Preferred share equity (Note 3) | | | | | |
| Authorized— 750,000 Subordinate Preferred shares of the par value of $15 each | | | | | |
| 6.20% Cumulative Redeemable Convertible Subordinate Preferred shares Series A | 288,733 | 4,330,995 | 5% | 4,352,670 | 6% |
| Preferred share equity (Note 3) | | | | | |
| Authorized— 919,161 Preferred shares of the par value of $20 each | | | | | |
| 5% Cumulative Sinking Fund Redeemable Preferred shares: | | | | | |
| 1955 Series | 59,338 | | | | |
| 1956 Series | 36,541 | | | | |
| | 95,879 | 1,917,580 | | 2,031,840 | |
| 4¾% Cumulative Redeemable Preferred shares, 1965 Series | 400,000 | 8,000,000 | | 8,000,000 | |
| | | 9,917,580 | 12% | 10,031,840 | 14% |

| | Issued (Thousands of dollars) | Outstanding 1971 | '71 | Outstanding 1970 | |
|---|---|---|---|---|---|
| Long-term debt | | | | | |
| First Mortgage Redeemable Sinking Fund Bonds— | | | | | |
| 4¼% Series D, due May 1, 1972 (Note 9) | $1,000 (U.S.) | — | | 870,272 | |
| 5⅝% Series F, due December 1, 1984 | 3,000 (U.S.) | 2,902,703 | | 2,951,350 | |
| 5½% Series G, due October 15, 1982 | 5,000 | 4,161,000 | | 4,241,000 | |
| 5½% Series H, due June 1, 1987 | 6,000 | 5,170,000 | | 5,266,000 | |
| 6% Series I, due October 15, 1990 | 5,000 | 5,000,000 | | 5,000,000 | |
| 7% Series J, due January 2, 1989 | 5,000 | 5,000,000 | | 5,000,000 | |
| 9⅛% Series L, due April 15, 1991 | 7,500 | 7,500,000 | | 7,500,000 | |
| 8¾% Series M, due May 15, 1992 | 7,500 | 7,500,000 | | — | |
| | | 37,233,703 | | 30,828,622 | |
| General Mortgage Sinking Fund Bonds— | | | | | |
| 5% Series B, due October 1, 1976 | 1,000 | 804,500 | | 839,000 | |
| 6% Series C, due November 1, 1977 | 3,000 | 2,547,000 | | 2,602,000 | |
| 5¾% Series D, due April 1, 1983 | 5,000 | 4,310,000 | | 4,465,000 | |
| | | 7,661,500 | | 7,906,000 | |
| | | 44,895,203 | | 38,734,622 | |
| Less: | | | | | |
| Current sinking fund payments | | 176,000 | | 363,440 | |
| | | 44,719,203 | 53% | 38,371,182 | 52% |
| **Total capitalization** | | 84,634,696 | 100% | 73,434,195 | 100% |
| **Short-term notes (pending permanent financing):** | | | | | |
| Subordinated note, 7½%, due June 1, 1973, payable to Anglo-Canadian Telephone Company | | 10,000,000 | | — | |
| Subordinated demand note, 9%, payable to General Telephone & Electronics Corporation (U.S. $14,620,500) (Note 9) | | — | | 15,000,000 | |
| Demand note, 7½%, payable to Anglo-Canadian Telephone Company | | — | | 1,300,000 | |
| Demand notes payable to banks | | 11,800,000 | | 9,800,000 | |
| **Total short-term notes** | | 21,800,000 | | 26,100,000 | |
| **Total capitalization and short-term notes** | | $106,434,696 | | $99,534,195 | |

The accompanying notes are an integral part of these consolidated financial statements.

# Notes to consolidated financial statements
**For the years ended December 31, 1971 and 1970.**

### 1. Principles of consolidation
The consolidated balance sheet and the consolidated statement of capitalization and the related consolidated statements of income, retained earnings and changes in financial position include the assets, capitalization and liabilities and the results of operations and changes in financial position of the wholly-owned subsidiary, The Bonaventure and Gaspé Telephone Company, Limited.

On December 28, 1971, the Company purchased the telephone plant and certain other assets from its subsidiary. This transaction is subject to the approval of the Public Service Board of Quebec and of the Canadian Transport Commission.

### 2. Depreciation of telephone plant
The Company follows the policy of providing for depreciation under the straight-line method by the application of rates based on the estimated service lives and net salvage value of the various classes of depreciable property to the gross book values of such classes of property.

The application of revised depreciation rates resulted in additional depreciation expense of $497,000 and $305,500 for the years ended December 31, 1971 and 1970 respectively. In addition, the Company charged $246,000 in 1971 and $115,000 in 1970 to depreciation expense representing extraordinary retirements of certain equipment and buildings.

### 3. Capitalization
a) Common share equity—
During the year ended December 31, 1971, the Company issued for cash 290,188 Common shares. In addition, 1,445 6.20% Cumulative Redeemable Convertible Subordinate Preferred shares Series A were converted into 1,445 Common shares. 288,733 Common shares are reserved for conversion of the 6.20% Cumulative Redeemable Convertible Subordinate Preferred shares Series A at the option of the holders thereof.

b) Preferred share equity—
During the year ended December 31, 1971, 5,713 5% Cumulative Sinking Fund Redeemable Preferred shares were redeemed (14,065 in 1970).

c) Sinking fund payments and long-term debt retirement—
Sinking fund payments and long-term debt retirement for the next five years in respect of the long-term debt outstanding at December 31, 1971 are as follows: $176,000 in 1972, $326,000 in 1973, $360,000 in 1974, $360,000 in 1975, $1,330,000 in 1976.

### 4. Construction program and commitments
The cost of the Company's program for the construction of new plant and facilities in 1972, as now planned, is estimated at $17,400,000 including cost of re-used material and equipment. In addition, the Company has agreed to subscribe $100,000 to the capital stock of Telesat Canada.

### 5. Traffic and commercial expenses
Traffic expenses represent mainly costs incurred in handling telephone calls (principally operators' wages) and commercial expenses represent marketing expenses, advertising, cost of directories and customer services.

### 6. Miscellaneous income
Miscellaneous income includes a credit for interest charged to construction of $176,116 in 1971 and $72,978 in 1970.

### 7. Pension plans
The Company maintains funded pension plans for the benefit of all employees. The policy is to fund pension costs as incurred. The total pension cost for 1971 and 1970 was $486,400 and $411,900 respectively, which includes amortization of past service cost of $113,000 for each year. The estimated unfunded liability for past service cost was $1,493,000 at December 31, 1971, based on the most recent actuarial study. Such past service cost, together with interest thereon, is being amortized over a period of 19 years.

### 8. Deferred income taxes
The provision for deferred income taxes and the aggregate of deferred income taxes result mainly from the difference between depreciation charged to the accounts and the capital cost allowance claimed for tax purposes.

### 9. Extraordinary item
During the year ended December 31, 1971,

$251,156 of U.S. exchange gains were realized on the redemption of the First Mortgage Redeemable Sinking Fund Bonds, 4¼% Series "D" and the repayment of the Subordinated demand note, 9%, payable to General Telephone & Electronics Corporation.

**10. Earnings per common share**

Earnings per common share were calculated using the weighted monthly average number of Common shares outstanding. This computation for 1971 took into account the issue in April, 1971 of 290,188 Common shares and the conversion during the year of 1,445 6.20% Cumulative Redeemable Convertible Subordinate Preferred shares Series A into Common shares.

If it were assumed that all of the 288,733 6.20% Cumulative Redeemable Convertible Subordinate Preferred shares Series A issued and outstanding at December 31, 1971 had been converted into Common shares as of January 1, 1971, the earnings per Common share for 1971 would have been $1.41 before extraordinary item and $1.52 after extraordinary item.

# Ten years of progress

*(Thousands of dollars)*

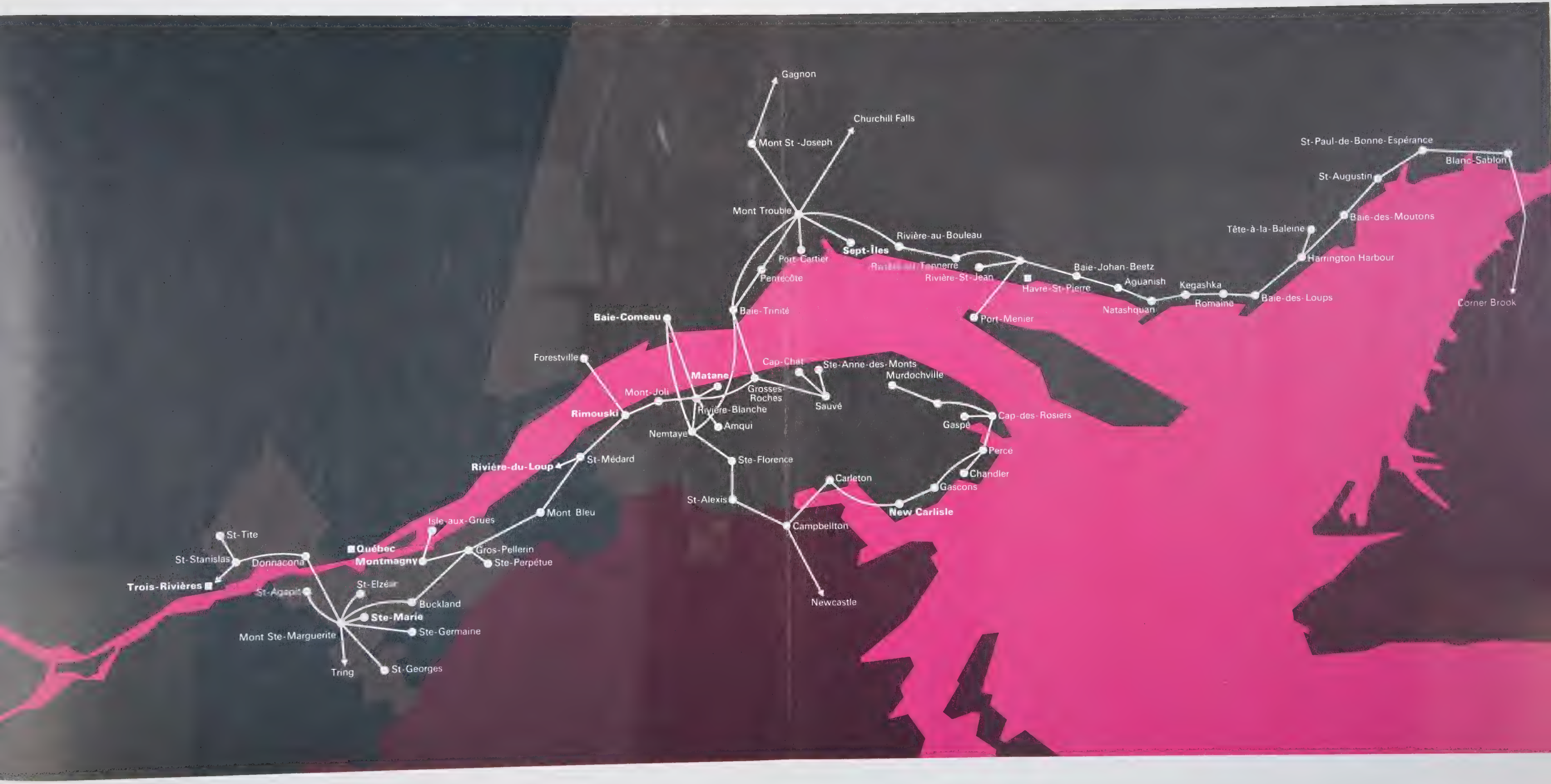
| | 1971 | 1970 | 1969 |
|---|---|---|---|
| **Selected income items** | | | |
| Operating revenues | **$ 30,954** | $ 28,363 | $ 25,892 |
| Operating expenses, taxes and income taxes | **23,000** | 20,747 | 18,962 |
| Depreciation of telephone plant | **6,541** | 5,573 | 4,817 |
| Provincial, municipal, and other taxes | **1,057** | 965 | 916 |
| Income taxes | **3,723** | 3,718 | 3,492 |
| Operating expenses | **11,679** | 10,491 | 9,737 |
| Interest charges | **4,680** | 4,639 | 4,161 |
| Net income | **3,649**[4] | 3,199 | 2,983 |
| Dividends paid on preferred shares | **747** | 758 | 757 |
| Net income applicable to common shares | **2,902**[4] | 2,441 | 2,226 |
| Dividends paid on common shares | **1,593** | 1,262 | 1,219 |
| Reinvested net income | **1,309**[4] | 1,179 | 1,007 |
| **Selected balance sheet items** | | | |
| Telephone plant, at cost | **$ 147,756** | $ 135,708 | $ 125,516 |
| Accumulated depreciation | **26,531** | 22,539 | 19,558 |
| Capitalization (including short-term notes) | **106,435** | 99,535 | 95,393 |
| Common share equity | **25,667** | 20,679 | 19,500 |
| Preferred share equity | **14,249** | 14,385 | 14,666 |
| Long-term debt | **44,719** | 38,371 | 31,227 |
| Subordinated notes payable to affiliated companies | **10,000** | 15,000 | 15,000 |
| Demand notes payable to banks and others | **11,800** | 11,100 | 15,000 |
| **Telephone service facts** | | | |
| Number of telephones[2] | **163,226** | 152,700 | 144,235 |
| Per cent dial | **97.7%** | 96.7% | 94.0% |
| Per cent D.D.D. | **94.2%** | 80.9% | 64.6% |
| Toll messages | **13,654,451** | 12,421,598 | 11,904,488 |
| **Other statistics** | | | |
| Number of employees [2] | **1,648** | 1,604 | 1,575 |
| Salaries and benefits | **$ 11,722** | $ 10,239 | $ 9,983 |
| Construction and other plant additions | **$ 14,731** | $ 12,961 | $ 13,498 |
| Average number of common shares [3] | **1,947,700** | 1,741,067 | 1,741,067 |
| **Ratios and percentages** | | | |
| Earnings per common share | **$ 1.49**[4] | $ 1.40 | $ 1.28 |
| Declared dividends per common share | **$ 0.81¼** | $ 0.72½ | $ 0.70 |
| Per cent net income applicable to common shares paid in dividends | **54.9%** | 51.7% | 54.8% |
| Plant investment per telephone [2] | **$ 905.22** | $ 888.72 | $ 870.22 |
| Taxes per telephone [1] | | | |
| Provincial, municipal, and other taxes | **$ 6.69** | $ 6.50 | $ 6.54 |
| Income taxes | **$ 23.56** | $ 25.04 | $ 24.91 |
| Common share equity per common share [2] | **$ 12.63** | $ 11.88 | $ 11.20 |
| Interest in per cent on long-term debt and short-term notes | **7.1%** | 7.4% | 7.0% |
| Per cent return on average invested capital [1] | **8.2%** | 8.1% | 7.7% |

(1) Yearly average
(2) Year-end
(3) Allowing for Split in Common Shares, 2 for 1 in 1964
(4) Before extraordinary item

| 1968 | 1967 | 1966 | 1965 | 1964 | 1963 | 1962 |
|---|---|---|---|---|---|---|
| $ 22,632 | $ 20,500 | $ 17,569 | $ 16,165 | $ 14,789 | $ 13,425 | $ 12,207 |
| 16,751 | 15,486 | 13,339 | 12,238 | 11,135 | 10,003 | 9,264 |
| 4,175 | 3,557 | 3,004 | 2,706 | 2,413 | 2,182 | 1,816 |
| 875 | 750 | 553 | 449 | 354 | 361 | 292 |
| 3,014 | 2,721 | 2,350 | 2,498 | 2,323 | 2,175 | 2,018 |
| 8,687 | 8,458 | 7,432 | 6,585 | 6,045 | 5,285 | 5,138 |
| 3,513 | 2,648 | 2,144 | 1,700 | 1,590 | 1,495 | 1,161 |
| 2,579 | 2,599 | 2,232 | 2,285 | 2,181 | 2,071 | 1,888 |
| 507 | 515 | 522 | 500 | 422 | 431 | 439 |
| 2,072 | 2,084 | 1,710 | 1,785 | 1,759 | 1,640 | 1,449 |
| 1,219 | 1,219 | 1,086 | 1,031 | 1,219 | 859 | 799 |
| 853 | 865 | 624 | 754 | 540 | 781 | 650 |
| $ 114,373 | $ 100,721 | $ 86,614 | $ 72,555 | $ 63,620 | $ 56,393 | $ 48,464 |
| 16,970 | 15,556 | 13,894 | 11,601 | 9,842 | 8,509 | 6,812 |
| 88,781 | 76,781 | 67,841 | 58,566 | 49,637 | 46,652 | 41,402 |
| 18,608 | 17,755 | 17,193 | 12,658 | 11,288 | 10,677 | 9,898 |
| 10,479 | 10,628 | 10,791 | 10,933 | 7,876 | 8,072 | 8,238 |
| 31,694 | 32,198 | 31,714 | 31,925 | 27,473 | 27,903 | 23,266 |
| 10,000 | — | — | — | — | — | — |
| 18,000 | 16,200 | 8,143 | 3,050 | 3,000 | — | — |
| 136,070 | 126,426 | 119,278 | 108,791 | 99,168 | 90,825 | 83,229 |
| 91.0% | 82.1% | 73.1% | 71.3% | 66.7% | 64.9% | 61.6% |
| 44.8% | 37.5% | — | — | — | — | — |
| 11,457,424 | 11,367,198 | 10,312,595 | 9,587,148 | 8,776,462 | 7,727,966 | 6,896,496 |
| 1,546 | 1,587 | 1,699 | 1,580 | 1,598 | 1,461 | 1,406 |
| $ 9,053 | $ 8,036 | $ 6,954 | $ 6,191 | $ 5,573 | $ 4,925 | $ 4,358 |
| $ 16,540 | $ 16,001 | $ 14,651 | $ 9,882 | $ 8,307 | $ 8,415 | $ 6,906 |
| 1,741,067 | 1,741,034 | 1,519,792 | 1,475,310 | 1,433,736 | 1,431,488 | 1,391,412 |
| $ 1.19 | $ 1.20 | $ 1.13 | $ 1.21 | $ 1.23 | $ 1.15 | $ 1.04 |
| $ 0.70 | $ 0.70 | $ 0.70 | $ 0.70 | $ 0.70 | $ 0.60 | $ 0.57½ |
| 58.8% | 58.5% | 63.5% | 57.8% | 69.3% | 52.4% | 55.2% |
| $ 840.54 | $ 796.68 | $ 726.15 | $ 666.92 | $ 641.54 | $ 620.89 | $ 582.29 |
| $ 6.67 | $ 6.11 | $ 4.85 | $ 4.32 | $ 3.73 | $ 4.14 | $ 3.68 |
| $ 22.96 | $ 22.15 | $ 20.61 | $ 24.02 | $ 24.45 | $ 25.00 | $ 25.41 |
| $ 10.69 | $ 10.20 | $ 9.88 | $ 8.51 | $ 7.87 | $ 7.45 | $ 6.87 |
| 6.3% | 5.9% | 5.7% | 5.5% | 5.6% | 5.6% | 5.5% |
| 7.3% | 7.3% | 7.1% | 7.5% | 8.0% | 8.0% | 8.4% |


HOTEL
Auberge

## Québec-Téléphone's Network



# A billion-dollar investment

The most important mining developments undertaken on the North Shore include the $300 million expansion program of the Iron Ore Company of Canada in Carol, where production will have doubled by 1973, and the construction of its pellet plant in Sept-Iles, where work is progressing according to schedule. Quebec Cartier Mining Company is currently developing, at a cost of $300 million, its mine at Mount Wright in Northern Quebec. Rayonier Quebec Inc. has begun construction of chemical cellulose production facilities, involving an initial investment of $165 million between 1972-74. The region from Sept-Iles to Port Cartier seems destined to a promising future.

Gaspe Copper Mines Limited has undertaken an expansion program, estimated at more than $100 million, at its Murdochville plant. The development of Forillon National Park, the first in the Province of Quebec, is progressing as planned, and the new agreement Canada-Quebec, totalling some $338 million for the expansion of the Gaspe Peninsula, has come into effect.

The Company serves certain areas surrounding Quebec City, including the 5000-acre St-Augustin Industrial Park, which will provide this region with continued growth.

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